

# LOS ANGELES BUSINESS JOURNAL

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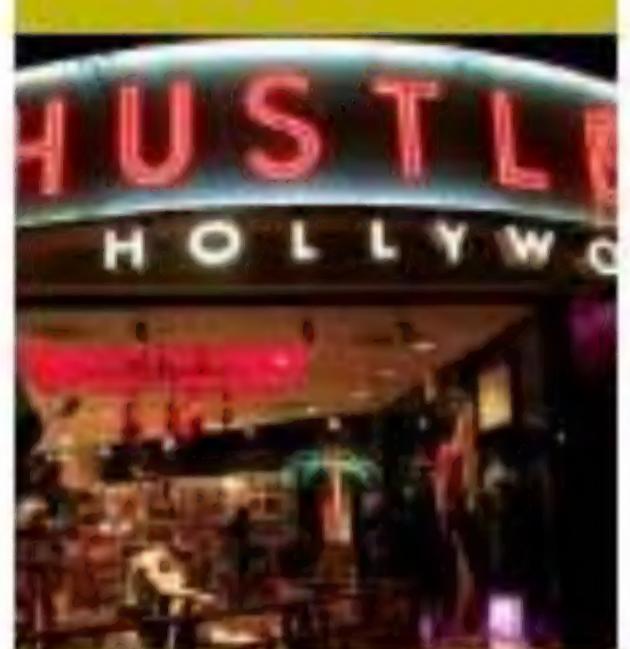
## Up Front



People want male nannies, so Michael Lin started a business called Mannies.

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## Real Estate



Larry Flynt's Hustler store giving way to Gwyneth Paltrow's private club.

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## Exec Style



Reality TV star Joshua Flagg wastes no time with shoelaces.

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## Downtown L.A. Takes Bite Out of Restaurants

**DINING:** High costs, poor access chew up well-reviewed eateries.

By HANNAH MIET Staff Reporter

Restaurateur Armen Shirvanian, owner of Pasadena mainstay Mi Piacé, believed in the potential of downtown L.A.'s South Park as a culinary mecca so strongly that when he opened Towne Food & Drink in 2012 he signed an unusually long 20-year lease.

Less than a year later, despite rave reviews, the ambitious and large 7,000-square-foot restaurant

**1%**

Net growth of restaurants nationwide last year. DTLA had a net loss.

downtown haunts that, like the fireworks that accompany their openings, sparkled brightly for a brief time and then fizzled out.

was shuttered.

Every restaurant has its particular narrative, and while Towne Food & Drink was beset by its own set of challenges – poor street-side visibility and access, along with parking limitations – its story fits into a larger tale, one that has seen a number of well-regarded

of the 10 restaurants that newspaper L.A. Weekly named the "best" downtown when it compiled its list in 2013, four have closed. What's more, there was a net loss of restaurants there last year. Chicago food-service data firm CHD Expert reported that while 54 opened, 79 shut their doors for good.

That's much worse than the national average. In 2014, restaurants nationwide grew at a rate of 1 percent, a net positive, said Darren Tristano, executive vice president at Chicago restaurant consulting firm Technomic Inc.

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**Pushing Back:**  
Keith, left, and  
Brandon Marz  
with hired  
protesters in  
front of Walgreens  
in Hollywood.



## Small Fish

Big order, big trouble  
for 'Shark Tank' winner

By CALE OTTENS Staff Reporter

Keith and Brandon Marz swam out of ABC's "Shark Tank" with a big-name investor and into a handful of lucrative purchase orders from Walgreen Co. for Marz Sprays, their vitamin and health supplement company.

Yet three years later, their West L.A. company is treading dangerous water and on the verge of sinking.

The contracts with Walgreens, worth about \$485,000, proved to be a devastating blow to the company, said Keith Marz, the company's founder and father of Brandon, its chief executive. Walgreens ordered 60,000 units of Marz Sprays' supplements, delivered through an oral

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## Co-Working Finds Space in Tech Scene

**REAL ESTATE:** Flexibility, price points prove good fit for startups.

By GARRETT REIM Staff Reporter

Chad Vangas' startup is growing, but he won't be moving into a formal office any time soon.

Bootstrapped since its inception in April 2014, his four-employee email marketing service **Ecommerce Influence** is housed in a communal office, commonly called co-working space.

"The word 'lease' just gives me the heebie-jeebies. I don't want to be locked to anything," said Vangas, whose shared office in Venice is owned by **NextSpace Inc.** "We really never thought at looking at an office space. We knew the flexibility and what a co-working

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Moving In: Cross Campus' Dan Dato, left, and Ronen Olsansky in Santa Monica.

## Subsidies Dry Up For Turf Remover

By HOWARD FINE Staff Reporter

Turf Terminators burst on the local scene nearly two years ago with a simple strategy: promising property owners they'd handle all the hard work of removing water-guzzling lawns and leaving them with permanently lowered water bills. Customers paid nothing, but the Santa Monica company would apply for – and pocket – rapidly burgeoning turf-removal rebates from local governments.

For 18 months, the strategy worked beautifully, as the company at times raked in well over \$1 million a month in rebates.

Then, Turf Terminators imploded, the victim of

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# Dining: Restaurants Struggle to Keep Seat at Table



**Shuttered:** Above, Innovative Dining Group's Soleto in downtown Los Angeles. Below, former space of Towne Food & Drink.

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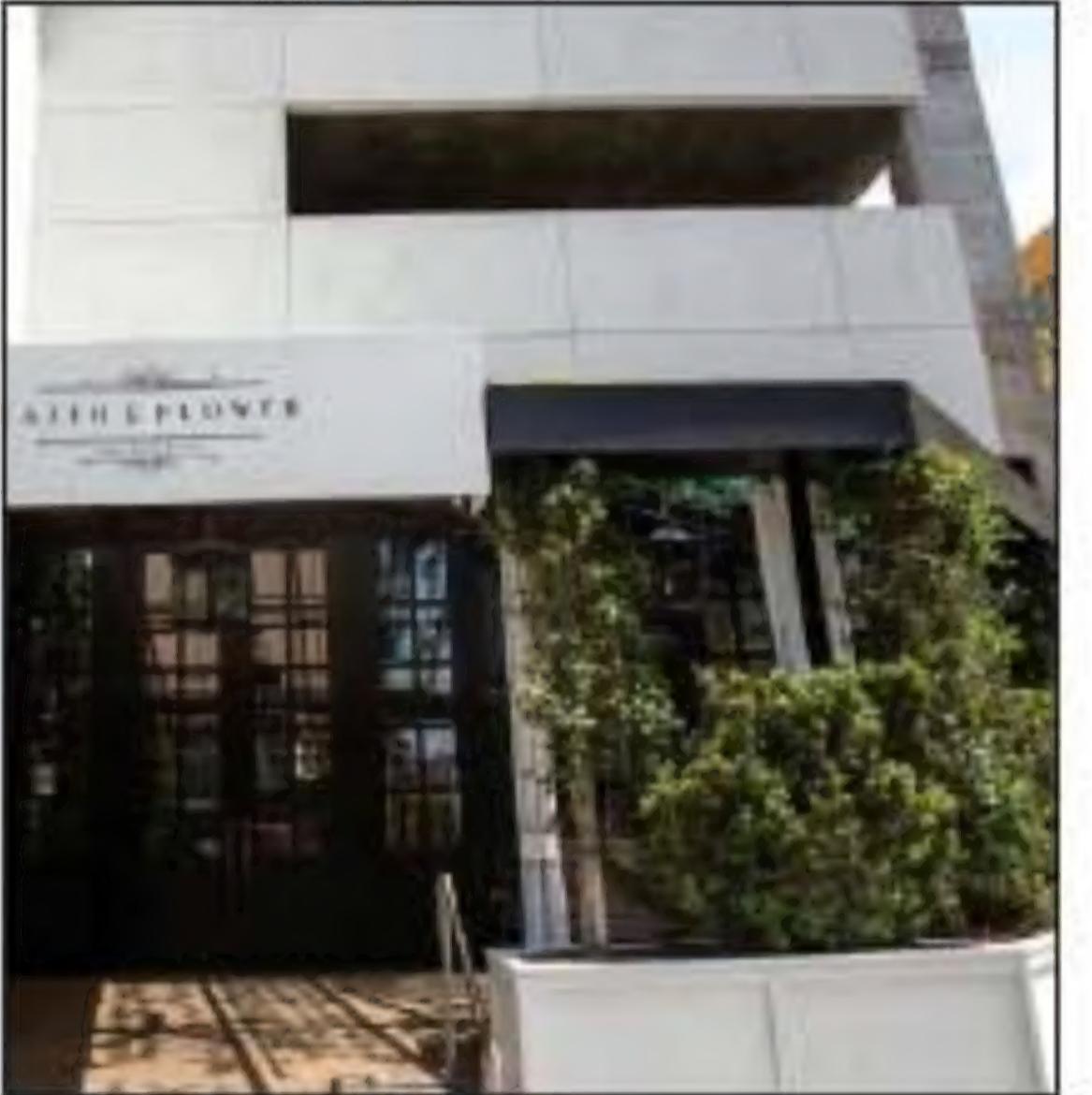
"There's this juxtaposition of downtown having tremendous culinary interest and success with certain restaurants, and a failure rate of other restaurants, some with Michelin-trained chefs or chefs that may have been considered as James Beard award candidates," said **Derrick Moore**, a principal in the downtown office of real estate services firm **Avlon Young**, who has brokered many downtown restaurant leases. "Restaurants will open and they are all the rage, and then you look up, and they are shuttered."

Among them: chef **Ricardo Zarate**'s Mo-Chica, chef **John Sedlar**'s Rivera and, this summer, **Innovative Dining Group**'s Soleto Trattoria & Pizza Bar.

That restaurants come and go is not surprising, but the rate at which these highly touted offerings have flared out downtown is raising eyebrows.

Industry observers cite a number of unique challenges that make succeeding in the restaurant business downtown particularly difficult, not least of which are access and limited parking. Moore, for example, also cites rising rents and unrealistic business projections.

Shirvanian said he knew Towne Food & Drink's location, on the ground floor of the Watermark Tower at Ninth and Flower streets, was not the best. It was at the intersection of two one-way streets, and it suffered from a lack of parking.



"We were fully aware of these challenges, but we thought we could overcome it with our food and design," he said.

## Fickle business

He's not alone in that view.

Despite the rash of closures, diners downtown have plenty of choices. Nearly 150 restaurants have opened downtown since January 2013, according to CHD. But that influx has led to what might be called dining Darwinism: New offerings compete for customers and only the fittest survive.

"There's a bit of a fickle palate downtown," Moore said. "Patrons tend to rush a

restaurant for the first six months, but then that same crowd is saying, what's the next new place coming?"

While competition is not unique, the capriciousness of L.A. foodies is extreme.

"Specific to Los Angeles is a trend consciousness that increases risk," said **Scott Kamalski**, who runs **Maverick Restaurant Consulting** in downtown.

Many restaurants with heavily Instagrammed openings struggle to be heard over the noise once their 15 minutes (or six months) of fame are up.

**Larry Kosmont**, chief executive of downtown real estate adviser **Kosmont Cos.**, said poor visibility can also be a problem. He cited Soleto, which was tucked inside the 801 Tower at 801 S. Figueroa St. in the Financial District, and Rivera, which was at 1050 S. Flower, as examples of "B locations."

Rivera, Kosmont said, suffered from a long, narrow layout with poor flow internally, and the fact that Flower is not a good retail street.

**Sedlar**, who relocated Rivera to his hometown of Santa Fe, N.M., could not be reached for comment. Representatives of Soleto owner Innovative Dining declined to comment.

Moore, however, disputed Kosmont's assessment. He brokered the lease for Rivera and said the restaurant struggled because South Park, at the time, lacked the critical mass of people that makes for a successful location.

Shirvanian, stung by the experience with Towne Food & Drink, is nevertheless scouting downtown for a second location for his 25-year-old Mi Piaice and is dumbfounded by how much rents have increased since his first foray into the market.

When Towne Food & Drink opened three years ago, its rent was \$3 a square foot a month. Moore said restaurant rents downtown now range from \$3.75 to \$6.50 a square foot a month. That means a chef needs to sell a lot of pork shoulder braised sous-vide with achote in a banana leaf wrapper at \$29 to make an eatery work.

Still, many are convinced they can. Restaurateurs tend to make calculations on a best-case scenario, not conservative and sound business practices, Moore said, and as a result they pay unsustainably high rents.

That poor planning takes its toll on downtown restaurants more than it does in other cities, Kamalski said.

In the newest wave of closures, many operators failed to anticipate how much a chef-driven concept depends on, well, the chef. Mo-Chica shuttered when Zarate left. Soleto closed a year after **Sascha Lyon** bounced. When chef **Josef Centeno** left Lazy Ox to open **Baco Mercat**, owner **Michael Cardenas** tried to keep the restaurant open, hiring two other chefs in succession, but it immediately took a nosedive and ultimately closed.

"When restaurateurs hire chefs for a chef-driven restaurant, it's very personal," Centeno said. "The restaurateurs can't execute the same experience themselves."

## Rising demand, costs

Another financial consideration is L.A.'s recently passed minimum-wage law, which Shirvanian said would hike his costs and cut any profits way down.

"When you do a pro forma, you see the sobering reality of working for a 5 percent reward," he said.

Despite a boom in residential projects downtown, dining is still dominated by the volume coming from the office crowd, which means lunch is king, Kosmont said.

The residential population of fewer than 60,000, according to **Downtown Business Center Improvement District**'s second-quarter report, makes dinner patronage inconsistent.

The 10,000 housing units under construction and 12,000 units proposed will help the pace pick up, said **Carol Schatz**, chief executive of the Downtown Center BID.

In addition, later arrivals will learn from their predecessors' mistakes, said Moore. They will be more sophisticated players who waited it out to let the amateurs test whether downtown's culinary scene is just a fad.

"In retail, we are accustomed to cycles where numerous bars and (small) restaurants are the early occupiers, what some might call minor leaguers," he said. "Now, we're seeing international investment looking at (high-end) places like **Bestia** and **Redbird** and saying, 'These are my contemporaries.'"

# Internet: Studios See Bigger Role for Digital Content

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Thunder's chief marketing officer. "That's where the industry is going."

All of that might be appealing to content creators not eligible to shoot at Google Inc.'s YouTube Space LA in Playa Vista. Built in 2012, the high-tech, 41,000-square-foot facility offers free access to YouTubers that increases based on the number of subscribers they have.

But not all independent production studios

see the value in trying to attract more YouTubers. Take Hollywood's **Raleigh Studios**, which hasn't seen a lot of demand from Internet content creators, said **Christopher Cope**, vice president of sales and marketing.

## Traditional focus doubts

While it's not opposed to renting out space to online video shoots should they inquire, Cope said Raleigh is busy enough with long-term film and television productions and is not planning any upgrades to cater specifically to

the digital market.

"The effort it would take in order to facilitate that kind of business is not worth the revenue we would gain from it," said Cope.

That could be because digital productions don't require much time to shoot, and even though budgets are increasing, they're still a fraction of the millions of dollars that Hollywood studios, as well as streaming services such as **Netflix** and **Amazon.com Inc.**, spend to create content.

A smaller 6,700-square-foot stage at Raleigh that is usually rented out to shoot

commercials costs about \$2,500 for a day.

"It may not make economic sense today, but that's where the world is going as part of the overall platform for distribution of content," said **Peter Csathy**, chief executive of West L.A. consultancy **Manatt Digital Media**.

He added that physical production houses would be wise to start making inroads with the growing number of companies funding digital shoots.

"You've got to be where the millennials are if you're in the production business," he said.